

January 18, 2005

TO: SELECT BOARD  
FINANCE COMMITTEE  
FROM: Barry L. Del Castilho, Town Manager  
SUBJECT: LETTER OF TRANSMITTAL  
FY 06 PROPOSED BUDGET



Projections of FY 06 revenues and expenditures continue to indicate that even modest budget increases may result in a significant budget deficit, even with a fairly optimistic projection of local aid, even with so-called "excess capacity" from last fall's local aid, and even with as much as \$2 million from Free Cash. That is because the FY 05 budget was supported by more than \$2.5 million in reserves, other one-time funds and one-time savings.

The proposed budget in this document represents a "level services" budget, i.e. funds required to continue the level of municipal services currently being provided. Thus it includes inflationary increases (including employee salary adjustments) and a significant increase in employee health insurance expenses, but no increases in staffing. Some increases result from the one-time early retirement savings that greatly helped the FY 05 budget situation; and the retirement assessment will increase by \$300,000. The only other significant recommended increase in the General Fund is \$40,000 for Veterans' Benefits, due to an increasing caseload.

The proposed FY 06 General Fund operating budget represents an increase of 5.7% over the amended FY 05 municipal budget. We will be working to reduce the required increase in health insurance, but otherwise it will be extremely difficult to reduce the proposed budget below the amount recommended. We may find a few additional savings and efficiencies, but reductions in services will have to be considered if this budget has to be reduced significantly. Reductions in personnel will not be possible without reductions in services.

In actuality, increasing demands for services make it increasingly difficult for staff and boards and committees, including the Select Board, to provide the current level of services with the current level of resources increased only for inflation. I have, therefore, listed in many department or division budgets most, but not all, of the "needs" that have been recommended by department heads but are not included in the "level services" budget recommendation. I will not list or describe them in this letter; but I hope and I request that the Select Board and Finance Committee give significant attention to those "needs" during

the budget process (there will be little to discuss otherwise, until and unless we find that we are truly engaged in deliberations about service reductions). Some are quite compelling and may necessitate an effort to accommodate them in some way. Others may be “for the record” and for further consideration if additional funds become available for FY 06 or future years. It is not always easy to reach agreement about which are which.

The Water and Sewer Fund operating budgets are recommended to increase by only 2.7% and 2.0% respectively. But both funds are impacted by significant revenue decreases as the result of water conservation measures. The water rate, increased last year, can remain the same for one more year. The sewer rate must be increased by 30 cents to avoid an unacceptably low Sewer Fund Surplus.

The Solid Waste Fund is presented as an enterprise fund again for FY 06. Transfer station and recycling revenues come close to covering operating expenses (not including debt service and General Fund Services), so it may be useful to track those revenues and expenses in an enterprise fund rather than as part of the General Fund and to set rates to cover expenses.

Parking revenues continue to support the parking management operating budget in the Transportation Fund and allow for an increase in reimbursement for General Fund Services.

With no debt service for FY 06, a projected 10% increase in revenues (based on a 12.4% increase July through December, 2004), and a recommended reduction in the operating budget, tax support shown for the Golf Course Fund is less than \$15,000 and allows for \$30,000 in payment in lieu of taxes and reimbursement for General Fund Services, a net plus for the General Fund for FY 06.

The Joint Capital Planning Committee and Community Preservation Act Committee have begun to prepare their recommendations for FY 06.

How difficult will this budget process be? That depends on assumptions that are made about local aid, on cost savings that might offset some of the health insurance increase, and on how compelling some of the Town, Schools, and Libraries “needs” are. As always, some combination of budget reductions and revenue increases will be needed, as well as the balancing of capital and operating needs and the prudent use of reserves. We can hope for some good news along the way, and we can strive for collaboration among boards and committees in the best interests of the entire Town. Staff and I will assist and support in whatever way that we can.